

Motivation Analysis and Performance Analysis of Haier Merger and Acquisition in Qingdao

Guanwei Chen^{1,*}

*School: School of Accounting, Henan University of Economics and Law, Zhengzhou, Henan Province, China, 450000,
Corresponding author. 2042035188@qq.com

ABSTRACT

It does not have an advantage in international competition though Qingdao Haier has a high market share in domestic home appliances. In 2016, in order to improve its competitiveness in the international market, Qingdao Haier acquired the home appliance business of American General Motors with US \$5.4 billion in cash. Improving market share in the United States has played an excellent role in promoting. This study analyzes the motivation of the merger and judge whether Qingdao Haier benefits from the merger by analyzing the financial indicators of the consolidated statement. According to the analysis results, it is concluded that after the implementation of M & A activities in Haier, although the individual indicators are lower than those before M & A, the overall synergy has been achieved and the operation of the enterprise is in good condition.

Keywords: *M & A; motivation of M & A; performance analysis*

1. INTRODUCTION

International competition in various fields is also more fierce in the context of economic globalization. However, high costs and other factors, the growth rate of the home appliance industry is slow due to the industry recession. As a consequence, cross-border M & A is a useful way for enterprises to achieve expansion. This study takes Qingdao Haier's merger and acquisition of general household appliances as an example to analyze its M & A motivation and performance, in order to understand the impact of M & A on the follow-up operation of M & A enterprises. In addition, Haier's M & A behavior is also very representative, and General Household Appliances have more advantages in terms of popularity and market share. As a consequence, this snake-like acquisition can also provide more targeted opinions and references for other household appliance enterprises to achieve financial effects in the process of mergers and acquisitions.

2. M & A MOTIVATION

2.1. Strategic layout of globalization

We can see that since the third stage in 1998, globalization has always been an important link for Haier to attach importance to development from the five

strategic development stages and development process of Haier. Whether Haier is in the United States, Southeast Asia or Japan, it is squeezed by large local household appliance companies. In addition, the scale of the domestic market is limited and oversaturated, and Southeast Asia and other places have the same large market scale and broad development prospects and growth space. Haier acquired Sanyo Electric in 2011 and has deep contact with Southeast Asia and Japanese markets. Hayreddin acquired Fisher Parker in 2009 and came into deep contact with the New Zealand market. This time, Haier's acquisition of General Household Appliances will be in deep contact with the North American market. From a global point of view, the development potential of the US market is huge. According to data provided by Euromonitor International, the market size of large household appliances in the United States in 2015 was 58.9 billion US dollars, accounting for 1/5 of the global large household appliance market. Not only that, it will expand at an annual growth rate of 325% in the next five years.[1]

In addition, General Household Appliances has a long history and is a well-known large household appliance enterprise in the United States. Through this series of cross-border mergers and acquisitions, Haier will gain experience in cross-border mergers and acquisitions and global operation, promote Haier's

globalization strategy, and make Haier a global leader in the home appliance industry.

2.2.Brand effect

More consumers can prefer to choose enterprises with good brand image, and the brand effect is gradually emerging with the continuous development of China's national economy. However, in the home appliance market of Europe and the United States and other developed countries: "Haier's brand effect is still weak. Compared with Haier, high-end large household appliance enterprises have established industry brand barriers through the segmentation of different products in different markets. Through high, middle and low brands to correspond to different home appliance markets. However, in the global market, Haier does not have a clear brand positioning, and only uses a single brand to cover the whole range of products for a long time. As a consequence, Haier needs to obtain more brand effect to meet different needs. General household appliances is the second most popular household appliance brand in the United States.[2] As a consequence, Haier can take advantage of the brand advantages of general home appliances to enter the American market, increase the influence of the brand and speed up the strategic process of globalization.

3. FINANCIAL ANALYSIS OF QINGDAO HAIER BEFORE AND AFTER M & A

3.1.Solvency analysis

The solvency of Qingdao Haier before and after the acquisition of general household appliances is shown in Table 1.

Table 1 Analysis of solvency

Financial indicators	2014	2015	2016	2017	2018
Current ratio	1.43	1.38	0.95	1.15	1.18
Quick ratio	1.25	1.16	0.74	0.87	0.9
Asset-liability ratio %	61.18	57.34	71.37	69.13	66.93
Property right ratio	2.1	1.92	3.55	3.25	2.83

Source: Qingdao Haier financial statements from 2014 to 2018.

As can be seen from the data in Table 1, Qingdao Haier's short-term solvency was the strongest in 2014, declined slightly in 2015, and began to recover slowly after falling to the bottom in 2016. It can be seen that the company has been ready in terms of capital reserves since it first approached the acquisition target in 2015 combined with the timing of the company's acquisition of General Electric Appliances. The decrease in the current ratio in 2015 was mainly due to the shrinking of the company's balance sheet, the decline in total assets and total liabilities compared with the previous year, and the repayment of current liabilities with current assets, resulting in a decline in both current ratio and liquid ratio values. Although short-term solvency has declined, long-term solvency has increased.

The company increased its long-term liabilities by \$3.3 billion and reduced its cash assets by \$2.1 billion after buying GM's home appliance business for \$5.4 billion in 2016. As a consequence, the company's solvency at the end of 2016 was the lowest in recent years. With the consolidation of the business after mergers and acquisitions, the profitability of the company has been enhanced, and the company's solvency has gradually recovered. The short-term solvency indicators of all companies from 2017 to 2018 have been recovered, the capital structure has also been gradually improved, and the asset-liability ratio and equity ratio have gradually declined.

Generally speaking, focusing on the first consolidated report after the acquisition of GE in 2016, the company's short-term solvency showed a U-shaped trend, slowly falling from a high in 2014 to a low in 2016, and then gradually picking up. On the other hand, long-term solvency showed an upward trend from 2014 to 2015, and slowly began to pick up after jumping to its lowest point in 2016. Except for the weakest solvency in the year of the acquisition in 2016, the solvency in other years is strong, and it shows a development trend that the solvency is getting better and better after the acquisition.

3.2.Operational capability analysis

The operating capacity of Qingdao Haier before and after the acquisition of general household appliances is shown in figure 1.

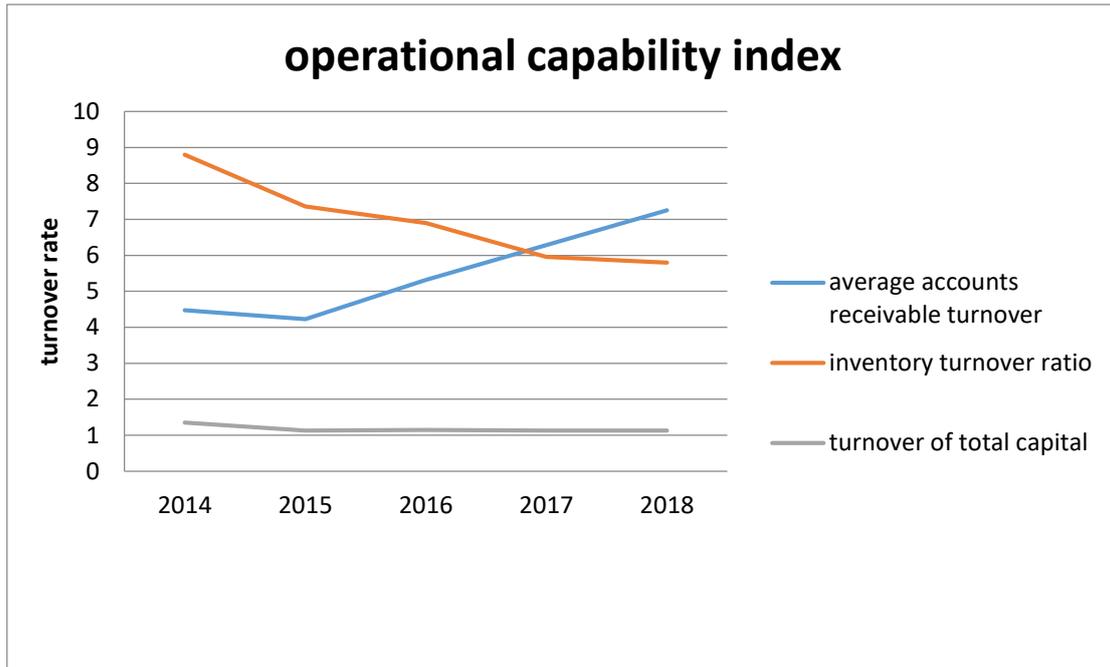


Fig. 1 Analysis of the operating capacity of Qingdao Haier

As can be seen from Fig. 1, the turnover rate of accounts receivable in Qingdao Haier has been basically maintained at a high level of more than 4 for five consecutive years, indicating that the company has a very strong ability to manage accounts receivable. After the company acquired general household appliances in 2016, the level of accounts receivable turnover has been further improved, indicating that the management ability of accounts receivable of general home appliances is better than that of Qingdao Haier. Or the credit sales ratio of General Electric Appliances is lower than that of Qingdao Haier.

In terms of inventory turnover, the company should have more inventory due to the increasing scale of sales, so that it can meet the needs of sales and will not be out of stock. With the increase of the turnover rate of accounts receivable, it is normal for inventory turnover to decline slightly.

In terms of total asset turnover, it has basically remained above 1.13 in the other four years except for 1.35 in 2014. It shows that the sales scale of the company basically keeps pace with the scale of total

assets, and the management efficiency of the company is maintained at a good level.

Generally speaking, the company has a high turnover rate of accounts receivable and inventory. In addition, the turnover rate of accounts receivable has been increasing all the time. When the sales scale of the company continues to grow, it can also increase the turnover rate of accounts receivable. It shows that the sales strategy and the management level of accounts receivable are relatively high. In order to match the growth of sales, the company's inventory has increased, resulting in a slight decline in inventory turnover, which is a normal phenomenon. The total asset turnover rate has also been maintained above 1.13, indicating that the management efficiency of the company has been maintained at a high level, and the scale of sales is growing at the same time as the scale of total assets.

3.3. Development capability analysis

The development capacity of Qingdao Haier before and after the acquisition of general household appliances is shown in figure 2.

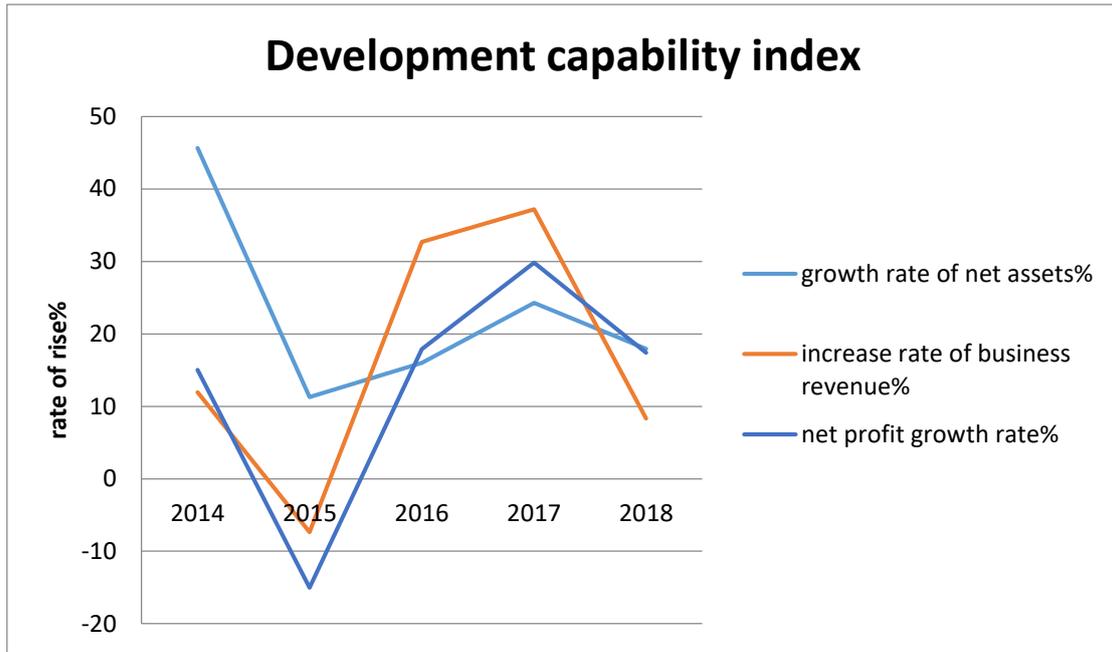


Fig. 2 Analysis of the development capacity of Qingdao Haier

As can be seen from the Fig.2, the company's operating income growth rate and net profit growth rate show a curvilinear development trend. In 2015, the company's operating income and net profit decreased compared with the previous year, and the company's development was hindered. After the acquisition of General Electric Appliances in 2016, affected by the factors of the consolidated financial statements, sales revenue and net profit increased significantly compared with the same period last year, of which the growth rate of sales income was 32.67%. The growth rate of net profit also reached 17.89%. In 2017, after the acquisition of GM household appliances, mergers and acquisitions produced a synergistic effect. The company's operating income and net profit continued to grow at a high speed, with an operating income growth rate of 37.18% and a net profit growth rate of 29.81%. In 2018, the whole home appliance industry was affected by the environment, and the sales market was weak. In addition, the growth rate of business income and net profit of Qingdao Haier also dropped sharply.

The share of the direct increase in shareholders' equity caused by the non-directional issuance of shares in 2014 is larger. In terms of the growth rate of net assets, which is not due to the increase in net assets caused by production and operation. In addition, the growth rate of the company's net assets should be maintained at more than 10% in the other four years, with a relatively large growth rate in 2016 and 2017, and a slight decline in 2018. The company can create stable and high returns for shareholders over a long period of time.

4. THE SIGNIFICANCE AND INFLUENCE OF HAIER'S MERGER AND ACQUISITION OF GENERAL HOUSEHOLD APPLIANCES

Generally speaking, Haier's acquisition of GM Home Appliances is a successful overseas M & A case. We can see from the comparison of financial data before and after the merger that all the financial indicators of the company have improved after the merger, especially in 2017, the scale of sales revenue, net profit, return on net assets and other indicators have reached a new height, and the synergy produced by M & A has been clearly reflected. Its positive significance and influence are mainly shown in the following aspects:

First, Positive impact on financial data.

Except that the solvency index is slightly lower than the level before M & A, the gross profit margin of sales, the turnover rate of accounts payable, the growth rate of operating income and net profit are significantly better than those before M & A by the end of 2018.

Second, Synergy for business operations.

The process of globalization of the company has been accelerated after the merger and acquisition. It has produced obvious synergy in products and supply chain, and played a positive role in reducing procurement costs and giving full play to the advantages of R & D and technology sharing.

Third, opening up the American market and consolidating the international market share.

Market research agency Euromonitor recently released the latest home appliance market survey results.

Haier Group is in the global home appliance market share of 6.1%, ranking first among all home appliance brands. This is also the second time that Haier has won this honor. Among them, refrigerators account for 10.8% of the global home appliance market, also ranking first. In addition, Haier has become the world's largest refrigerator manufacturer, as well as the largest wine cabinet manufacturer. Haier has won a total of six world firsts, Haier has become the only brand in China to enter this list, and has won the second largest number in the world.[4]

5. CONCLUSION

Taking Haier Home Appliances merger and acquisition of General Home Appliances as an example, this study analyzes the motivation and financial indicators of cross-border mergers and acquisitions in the home appliance industry. In addition, it finds that this merger has a positive impact on Haier Home Appliances as a whole. Not only improving some financial indexes., it has also improved its overseas market share and global brand influence. Even in the decline of the global home appliance market, the merger and acquisition has greatly consolidated the market position of both sides and increased the income scale of Haier. As a model of "snake-swallowing elephant" acquisition in the home appliance industry, Haier provides a useful reference for local enterprises to achieve international operation and development. Local enterprises should standardize their investment in advance, make clear their own motivation for mergers and acquisitions, and do a good job of integration and give full play to synergy after mergers and acquisitions.

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